EXTENSIONS OF REMARKS

STATEMENT ON THE INTRODUCTION OF THE BUSINESS METHOD PATENT IMPROVEMENT ACT OF 2000

HON. HOWARD L. BERMAN
OF CALIFORNIA
IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 3, 2000

Mr. BERMAN. Mr. Speaker, in recent months, substantial concern has been expressed over the patenting of Internet and business strategies and techniques. Both the quality and appropriateness of a number of recently granted patents have been questioned.

My primary concern in this issue is the protection of intellectual property, which I believe is critical both to innovation and to the economy—and in that context, I want to make sure that the quality of U.S. patents is the highest possible.

As the breadth of patentable subject matter grows, it is incumbent upon Congress to consider two questions. First, are the Patent and Trademark Office and the courts properly interpreting the scope of what should be patentable? Second, is the process for patenting appropriate for the subject matter we allow to be patented?

It is clear from my conversations with those who are developing the Internet, those financing Internet ventures, individuals conducting business and those in the patent community—and the public at large—that the patenting of Internet and business strategies and techniques is controversial and deserves serious examination. Some believe that ''business method'' patents should simply not be allowed. They argue, by analogy, that a toaster should be patentable but the idea of toasting bread should not. Others argue that business methods should remain patentable, but the PTO should apply much greater scrutiny when it examines such patent applications. To extend the analogy: we have been toasting bread for a long time and if you are going to patent a method of doing so, the PTO better make sure that it has never been done in just that way before. Some note that people have received patents on activities that have been undertaken for decades and even centuries, and argue that merely placing an activity on the Internet does not make for novelty. Finally, there are a number of strange examples that lend themselves to questions about whether such common human activities deserve patent protection at all. Surely, the patent system is functioning in a curious manner when patents have been issued on a technique for measuring a breast with a tape to determine bra size (Pat. No. 5,965,809), methods of executing a tennis stroke (Pat. No. 5,993,366) and swinging a golf club (Pat. No. 5,616,089), an architect's method of eliminating hallways by placing staircases on the outside of buildings (Pat. No. 5,761,857), and a method for teaching custodial staff basic cleaning tasks (Pat. No. 5,851,117). Others have noted with suspicion the patent for a method of exercising a cat using a laser light as a tease (Pat. No. 5,443,036).

Other patents, granted to more serious endeavors, have also have been roundly criticized. With regard to patenting Internet adaptations of brick-and-mortar businesses, questions have arisen about patents granted for a method of selling music and movies in electronic form over the Internet (Pat. No. 5,191,573), a method of developing a statistical ''fantasy'' football game using a computer (Pat. No. 4,918,603), a method of allowing car purchasers to select options for cars ordered over the Internet (Pat. No. 5,825,651), a method of rewarding online shoppers with frequent flyer miles (Pat. No. 5,774,870), and an arguably very broad patent on managing secure online orders and payments using an ''electronic shopping cart'' to purchase goods on the Internet (5,745,681).

In lay terms, the basic question in each case is whether the patent owner merely adapted a well known business activity to the Internet in a straight forward manner. In patent parlance, the question is whether any of these activities are truly new and would not be obvious to one skilled in the relevant art. Other questions that may be relevant are whether others in the United States had known of the invention or had used it, and whether the invention was used or sold in public prior to the filing for a patent.

I am not asserting that any of these patents should be invalidated. However, patents are becoming a critical factor in valuing many new economy businesses, and that means they are significant to the health of the economy. If business method patents are indeed being issued based on insufficient information about the relevant inventions that preceded the patented invention or if a patent is issued on the basis of insufficient ''prior art,'' there is substantial risk to the inventor that those who know of the ''prior art'' could step forward at any time, invalidating the patent. This uncertainty means that investors cannot be confident that businesses will in fact reap the returns they expect on the patented inventions.

In the context of the Internet, many argue that rather than spurring innovation, patents interfere with innovation; that fierce commercial competition, as opposed to patent monopolies, has driven innovation; and that a culture of open sharing of innovation has been the key to the Internet's rapid growth. Whether this is true or false, an invention that is tied up because of an inappropriate grant of patent is problematic and may interfere with the advancement of technology. If a patent is granted for an invention that is not truly novel or one which is obvious to an expert in the field, it may then become unavailable for competitors to exploit. Such a patent may also open the user of the prior invention to an infringement lawsuit.

The U.S. patent system, created under the specific authority of the Constitution, grants for a limited time a statutory monopoly over one's inventions. An inventor should have an incentive to create—a monopoly for a limited time allows an inventor the opportunity to appropriately benefit from his creativity, and at the same time, reveal in detail the invention to allow others to build on his advances. Historically, the concept of invention was limited to the physical realm, a machine or process by which a product is produced. Over the years, however, the courts and the PTO have expanded the scope of patentable subject matter. In fact, the Patent and Trademark Office is of the view that it is operating under Supreme Court instruction to patent ''anything under the sun made by man.'' To that end, they have allowed the patenting of business methods.

Three events have contributed to the rapid growth in the number of applications for business method patents:

In the 1998 ruling in State Street Bank v. Signature Financial Group, the Court of Appeals for the Federal Circuit, (which has exclusive jurisdiction over patent appeals) concluded that methods of doing business implemented using a computer are patentable. Some interpret the opinion as not even requiring computer implementation, and thus more broadly affirming the patenting of any business method. State Street was notable because it resolved a question where there had previously been divergent opinions among the lower courts. Some courts were of the view that there was a ''business method exception'' to patentability dating back to at least 1868. In resolving this issue, the court opened the flood gates for business method patents.

The second key event has been the explosive growth of the Internet. As businesses move to the Internet, they either adapt methods of doing their ongoing brick-and-mortar business or they invent new and innovative methods to take advantage of the unique qualities of the Internet.

Finally, business executives and entrepreneurs alike are gaining a better understanding of the economic value of intellectual property and patents, and are pursuing ways to take advantage of these opportunities.

Given this growth in patent applications, has the quality of patents suffered? There are several reasons identified for the lessening of the quality of patents in this area. In the view of some, the existing patent corps does not have the expertise to examine these ''new tech'' and ''business'' patents. The PTO needs more resources to enhance their examiners expertise and increase the size of the examiner corps in the relevant areas of art. Also, as a result of industry practices, there is a dearth of ''prior art'' data, the evidence of preexisting inventions, available in the areas of the Internet and business methods.

To be patentable, an invention has to be novel, useful, and not obvious to an expert in

the field. Novelty is judged by comparing the invention with both patented and non-patented inventions. Determining whether an invention existed before the patent application was filed—or whether the invention is obvious—is an extraordinarily difficult task in the realm of business methods and the Internet. Core Internet tools such as the Amazon.com ''1-click'', may have been in use prior to the filing of Amazon's patent application. Priceline.com's ''buyer-driven sales'' over the Internet arguably may have been ''obvious'' to an expert in the field of auctions.

I do not know whether these patents should or should not have been granted (and ongoing litigation will inevitably make that determination), but it is clear that the review of business method patent applications is impaired by the lack of documentation capturing the history of innovation in the Internet or the development of business techniques and methods.

By contrast, in the fields of engineering or science (two areas in which many patents are sought), inventions and innovations are meticulously documented and published. With these publications at hand, an examiner has easy reference to existing inventions. But very little published information exists with Internet and hi-tech practices . . . and most of what does exist is analogous to ''folk knowledge'', handed from person to person orally or in chat rooms or by e-mail. Where developments are documented, there is no common organizing scheme. Where business plans are involved, they are usually closely held as trade secrets. Since an examiner can reject a patent application only on published ''prior art'', informal communications are excluded.

As to obviousness, it is usually up to the patent examiner—using his own expertise and research of ''prior art''—to assess whether an expert in the field would think to come up with the applicant's invention. In the area of business method patents, the endeavors for which patents are being sought are very new to the PTO. It has been only five years since the Internet became a tool of business, and only two years since the court clearly established the rule that a business method is patentable in the United States. Unfortunately, although PTO is taking strides to develop expertise in the appropriate fields, there must be improvement in how experts can submit information to the PTO regarding specific patent applications.

Many of the changes needed can be met only by legislative action. It is critical that we create new mechanisms to get ''prior art'' into the system and make it available to applicants and the PTO. We must enhance the deference given the PTO in rejecting patent applications on the basis of all of the provisions of subsections 102(a) and (b) of title 35 by allowing examiners to rely on evidence of knowledge, use, public knowledge or sale in the U.S. that may not be documented in published references.

I am today introducing with Mr. BOUCHER a bill that will enhance the quality of Internet and non-Internet business method patents by increasing the opportunity for expert input into the patenting process. These improvements will provide patent owners and investors alike with greater confidence in the quality of their patents. The bill requires the PTO to publish business method patent applications and give the members of the public an opportunity to present ''prior art'' they believe may disqualify the application. Members of the public may also petition the PTO to hold a hearing to determine whether an invention was known, used by others, or in public use or on sale in the U.S. prior to the filing of the application. The bill also establishes an expeditious administrative ''opposition'' process by which a party will be able to challenge a business method patent. The opposition process provides parties with substantial evidentiary tools but will be much less costly and more efficient than litigation. The opposition process must be invoked within 9 months of the granting of a patent, and must be concluded within 18 months thereafter. Thus, we assure that within 27 months after the granting of the patent, a patent owner will either have enhanced confidence in the quality of their patent—something akin to quiet title—or will know the patent has been invalidated. The procedure will be presided over by an Administrative Opposition Judge who has substantial patent expertise and will have the responsibility to assure efficient review.

In regard to adaptations of business methods to the Internet, the bill establishes that where an invention only differs from ''prior art'' in that it is implemented using computer technology, such an invention shall be presumed obvious and therefore not patentable (this presumption can be overcome if a preponderance of the evidence shows that the invention was not obvious). Finally, the bill lowers the burden of proof for a challenge to a patent from ''clear and convincing evidence'' to ''a preponderance of the evidence''—an appropriately lower standard where the difficulty of producing evidence is complicated by the traditions and practices of the industries.

In introducing this legislation I am not taking a final position as to whether business methods should be patentable—I tend to think they should be, but I could be persuaded otherwise. I am not wed to any particular provision of this bill itself But I do believe that we need to be sure that the Patent and Trademark Office is well equipped to consider these patents, that there are adequate means to get good information into the system describing prior inventions, and that there are the appropriate standards and processes in place to assure the quality of the patents that are actually issued. There should be no question that the U.S. patent system produces high quality patents.

This bill is a work in progress, and one that will likely generate great debate. As I have noted, there are some who believe that ''business methods'' should not be patentable at all. Others who are certain to argue that current law ''ain't broke'', so there is no need for Congress to fix it. Still others believe that, to the extent there may be a problem, the Patent and Trade Mark Office will address it administratively. My intent with this legislation is to stimulate the dialogue. We need to air these issues and ultimately (and hopefully quickly) find the proper solutions.

TEACHING ABOUT CONGRESS

HON. TIM ROEMER

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, October 3, 2000

Mr. ROEMER. Mr. Speaker, I highly recommend the following speech recently given by our distinguished former Indiana colleague Lee Hamilton. Lee has devoted his career as a public servant to improving public understanding of Congress, and I found his remarks quite timely and informative. Mr. Speaker, I submit the following remarks into the CONGRESSIONAL RECORD.

TEN THINGS I WISH POLITICAL SCIENTISTS WOULD TEACH ABOUT CONGRESS—REMARKS BY THE HONORABLE LEE H. HAMILTON, PI SIGMA ALPHA LECTURE, AMERICAN POLITICAL SCIENCE ASSOCIATION ANNUAL MEETING, AUGUST 31, 2000

INTRODUCTION

My purpose this afternoon is to offer some thoughts on the role that you, as political scientists, can play in improving public understanding of the U.S. Congress.

I do not know what each of you teaches about the Congress—but I do know—on the basis of several thousand public meetings over three decades—that the lack of public understanding about the institution is huge.

That lack of understanding among ordinary Americans concerns me deeply because it increases the public's suspicions and cynicism about the Congress, weakens the relationship between voters and their representatives, makes it harder for public officials to govern, and prevents our representative democracy from working the way it should.

I believe you can improve public understanding of Congress by teaching several basic, and rather simple, lessons about this sometimes puzzling institution.

If Americans leave high school and college with a solid understanding of Congress, they will be better able to contribute to our nation's political life and will help make our representative democracy work better.

TEN THINGS TO TEACH ABOUT CONGRESS

First, I'd like you to teach that Congress is the most important link between the American people and their national government.

Many Americans have little appreciation for the basic function and role of Congress in our political system. I want you to help them understand that Congress is the institution whose job it is to seek consensus out of the many and diverse views of the American people. I want you to explain that Congress performs the extraordinary task of legislating and overseeing the government in the interest of more than 275 million Americans.

For all its deficiencies—which I will get to later—Congress has three great strengths:

Congress is, by far, the most representative institution in the United States. We live in a complicated country of vast size and remarkable diversity. Our people are many; they're spread far and wide; and they represent a great variety of beliefs, religions, and ethnicities. It isn't easy for such a country to live together peacefully and productively. Although Congress does not perfectly mirror the demographics of the American people, it does help bind us together by representing the country's great diversity.

Congress is also accessible—much more so than any other part of the federal government. Congress is the primary ''listening